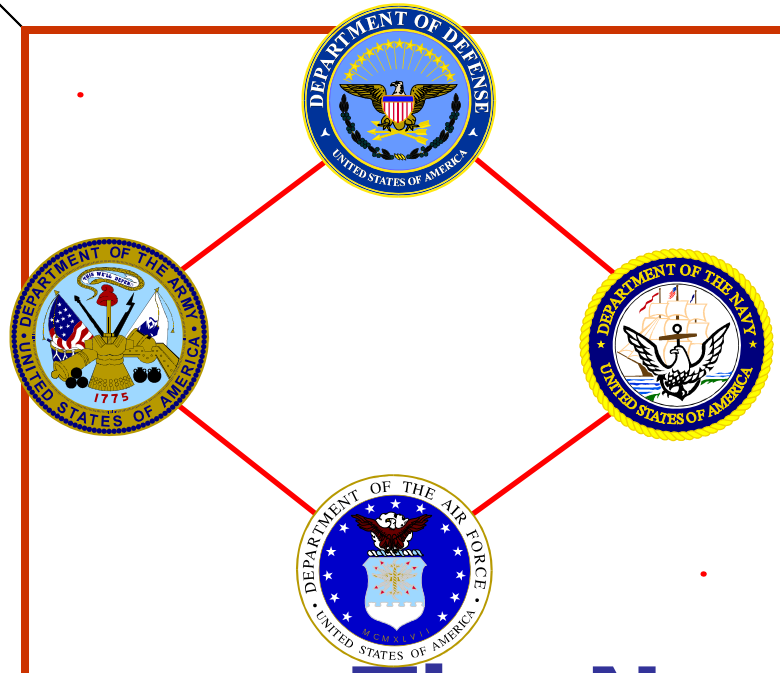

TRICARE

"T-Nex"
The Next Generation of Contracts

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TRICARE Management Activity
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Discussion Topics

- Overview of T-NEX
- HealthCare/Administrative Contract
  - T-NEX Financial Model
- T-Nex Financial Impact on the MTF
  - Funds Flow
  - Executing Current Contracts while Planning for T-Nex
- Resource Sharing Transition
- Local Support Contracts
- Summary

OVERVIEW OF T-NEX

Mission of T-NEX

- Enhance Customer Service
- Support Readiness and Peacetime Mission Requirements
- Improve Financial Predictability
- Incentives
- Simpler Contract

T-NEX Contract Groupings

- National Quality Monitoring Contract (NQMC)
- Marketing & Education
- Pharmacy: Retail, TRICARE Mail Order
- Dual-Eligible Fiscal Intermediary (TDEFIC)
- TRICARE Retiree Dental Contract (TRDP)
- Global Remote Overseas

❖ **Healthcare/Administrative Services**

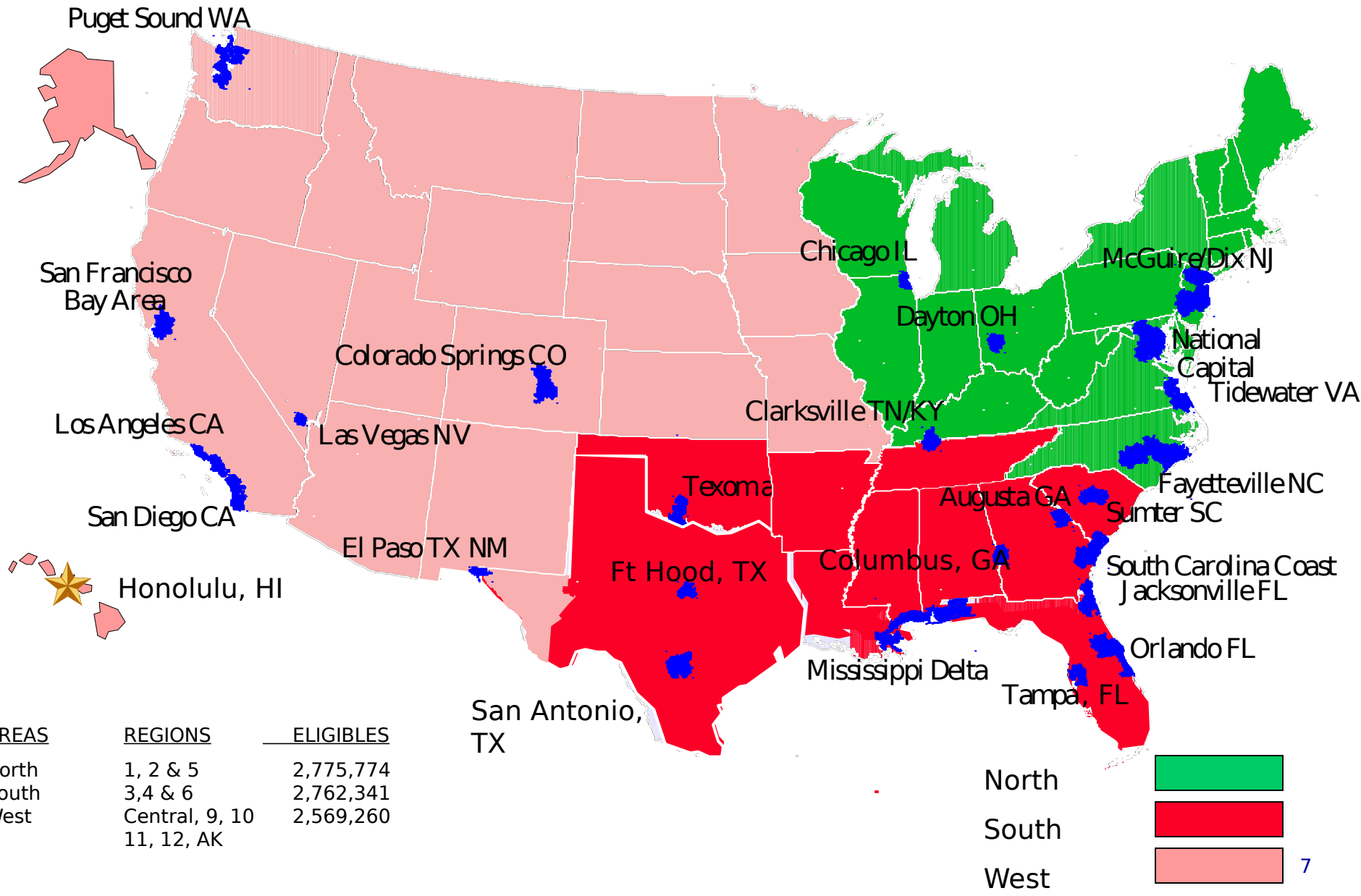
Status of Contracts

TRICARE Management Activity

Contract Status

Health Care & Adm	Evaluation Award Jun 03
Mail Order Pharmacy	Started work Mar 03
TRDP	Awarded start work May 03
Global Overseas Remote	Awarded start work Oct 04
TDEFIC	Evaluation ongoing
Retail Pharmacy	RFP released Mar 03
NQMC	RFP release Mar 03
Marketing & Education	D/SIDDOMS contract/ Govt Printing Office

New Regional Structure



AREAS	REGIONS	ELIGIBLES
North	1, 2 & 5	2,775,774
South	3,4 & 6	2,762,341
West	Central, 9, 10 11, 12, AK	2,569,260

T-NEX
Health Care & Adm Contract Timeline

Regions	Current Regions	Start HC Delivery
North	Region 2/5 Region 1	1 Jun 04 1 Sept 04
South	Region 6 Region 3/4	1 Nov 04 1 Aug 04
West	Region 11 Regions 9/10/12 Region 7/8	1 Apr 04 1 Jul 04 1 Oct 04

T-NEX

Differences Between Current and New Contract

- RFP less prescriptive & uses industry standards
- Provides incentives for quality of care and good customer services
- Performance Guarantee
- No retrospective Bid Price Adjustments
- Award Fee (Based on Customer Satisfaction)
- No Resource Sharing Thresholds/ No Resource Support

HealthCare/Adm Contract
Financial Model

- **Adding Up The Numbers**

T-Nex Financial Objectives

- Provide incentives and support for MTFs to maximize their capacity (optimization)
- Motivate cost control by the MCSS contractor
- Make financing mechanisms simpler
  - Eliminate complicated bid price adjustments
  - Reduce disputes regarding data and risk
- Improve ability to forecast budgetary requirements and close out prior fiscal years quickly
  - Mitigate risks for claims and REAs

Health Care/Admin Contract Financial-- Overview

TRICARE Management Activity

Healthcare Costs

- Contractor and Government will share risk for healthcare costs
  - Risk sharing approximates level of underwriting in current contracts
- MTFs will be funded for the expected level of private sector costs for their enrollees
  - Revised Financing
  - Supplemental care

Administrative Costs

- All other services provided by the MCSS contractor (e.g. claims processing, beneficiary svcs, mgt etc)

Financial Methodology Administrative Pricing

- **Administrative Pricing:**
  - Claims processing will be paid on a fixed price per claim
  - Disease management will be reimbursed on a cost basis
  - All other admin will be reimbursed on a fixed price per eligible basis
- **Administrative Performance Incentives:**
  - Contractor proposes a performance guarantee for specific objective measures (such as phone response times, claims processing). 3% minimum required

Financial Methodology Administrative Pricing

- **Award Fee:**
  - Government creates equivalent Award Pool, up to a max of 10%, for incentives for subjective measures (such as beneficiary satisfaction, Regional Director satisfaction, provider satisfaction)
- Performance Guarantee & Award Fee work together to provide strong incentives for customer service

Financial Methodology: Healthcare Pricing

- Offeror bids admin prices and target healthcare fee for all option periods but a healthcare target cost for OP1 only
- Healthcare target costs for later years negotiated annually (before exercising option)
  - Provisions to set by formula if negotiations impasse
  - No retroactive adjustments to target except for extraordinary events
- Cash-basis reimbursement to contractor for healthcare claims costs

Financial Methodology: Healthcare Pricing

- Healthcare target costs compared to actual claims cost to calculate contractor's realized fee
- Government and contractor share in gains and losses
  - 80% Government; 20 % contractor
- Contractor will start to lose fee if actual costs exceed negotiated target cost
  - Negative fee for large overruns

How Model Works for OP1

- Govt provided historical healthcare claims data for region and projections of TRICARE eligibles
  - Detailed claims data for FY01 and FY02 as of Aug 02
  - Summary level claims data for FY99 & 00

- Offeror bids:
  - Target TRICARE healthcare costs for OP1
  - Administration price for each OP
  - Target healthcare fee for each OP

How Model Works for OP1

- After OP1, government compares actual healthcare claims in OP1 with offeror-proposed amount for OP1:
  - Target costs updated for current year impact of healthcare change orders (using Government Cost Estimate)
  - Fee calculations based on all TRICARE eligibles (including MTF enrollees)
  - 80/20 (Govt/Contractor) risk sharing for deviations, subject to min/max fee constraints
    - Min fee will be an amount equal to -4% of target cost (approximates maximum level of contractor liability in current contracts)
    - Max fee will be an amount equal to 10% of target cost

Example of Underwriting Risk Sharing

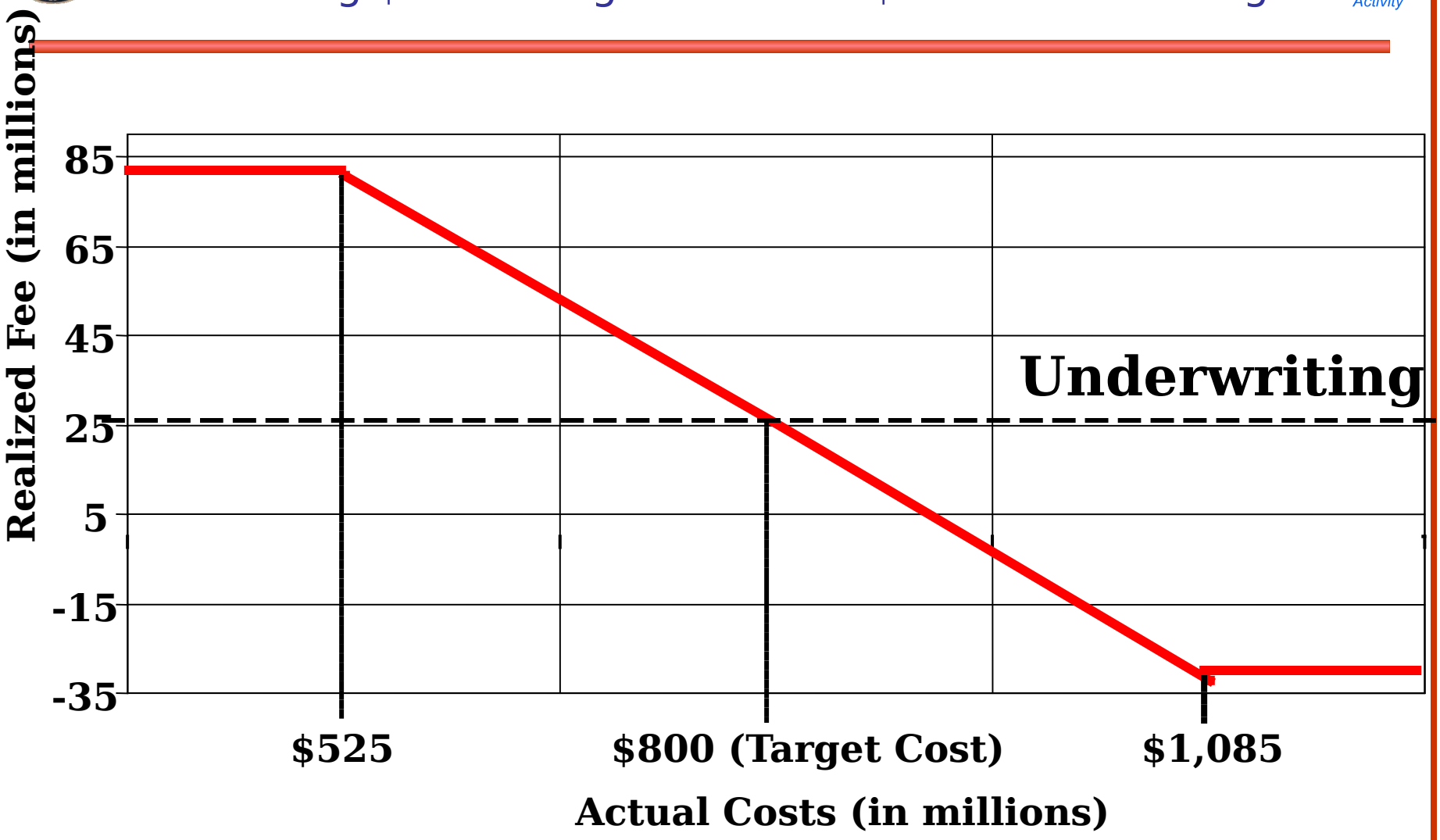
TRICARE Management Activity

Based on an agreed to target annual health care cost of $800 million, the Government pays the contractor for healthcare costs, and adjusts the Underwriting Fee as follows:

If Actual Healthcare Cost is	Government Pays Contractor ($ millions)	Net Contractor Gain/Loss
$800M (Target)	$800 + $25 = $825	$25M
$750M	$750 + $25 + .2(800-750)=$785	$35M
$700M	$700 + $25 + .2(800-700)=$745	$45M
$825M	$825 + $25 + .2(800-825)=$845	$20M
$950M	$950 + $25 + .2(800-950)=$945	-$5M

Underwriting Continuum

Assuming $800M Target Cost and $25M Underwriting Fee



How Model Works for OP2

- For OP2, target cost will be negotiated during OP1:
  - Process starts 3-4 months prior to exercising next OP
  - Target cost is determined by considering incurred costs and estimating costs for the next period
  - Government and contractor negotiate and agree to target for next period
  - If agreement cannot be reached 30 days before the start of performance of the next period, the trend factor formula will be used to set target cost for the next period

Trend Factor Formula

- Formula sets target cost retrospectively at the conclusion of the OP
- Target cost equals the actual cost from the prior OP multiplied by the national TRICARE trend experience in the current year
- Target fee will be proposed by offeror at time of award
- Determination of realized fee for OPs will be done by comparing actual costs in OPs with target cost

Trend Factor Formula

- **Example:**
  - For OP3, target cost will be equal to costs in region in OP2 multiplied by national trend from OP2 to OP3.

Regional Cost	National Cost			Target Cost in
OP2	OP2	OP3	% Trend	Region for OP3
$725M	$3,500 M	$3,850 M	10%	$725 x 1.1 = $797.5M

Summary of Model

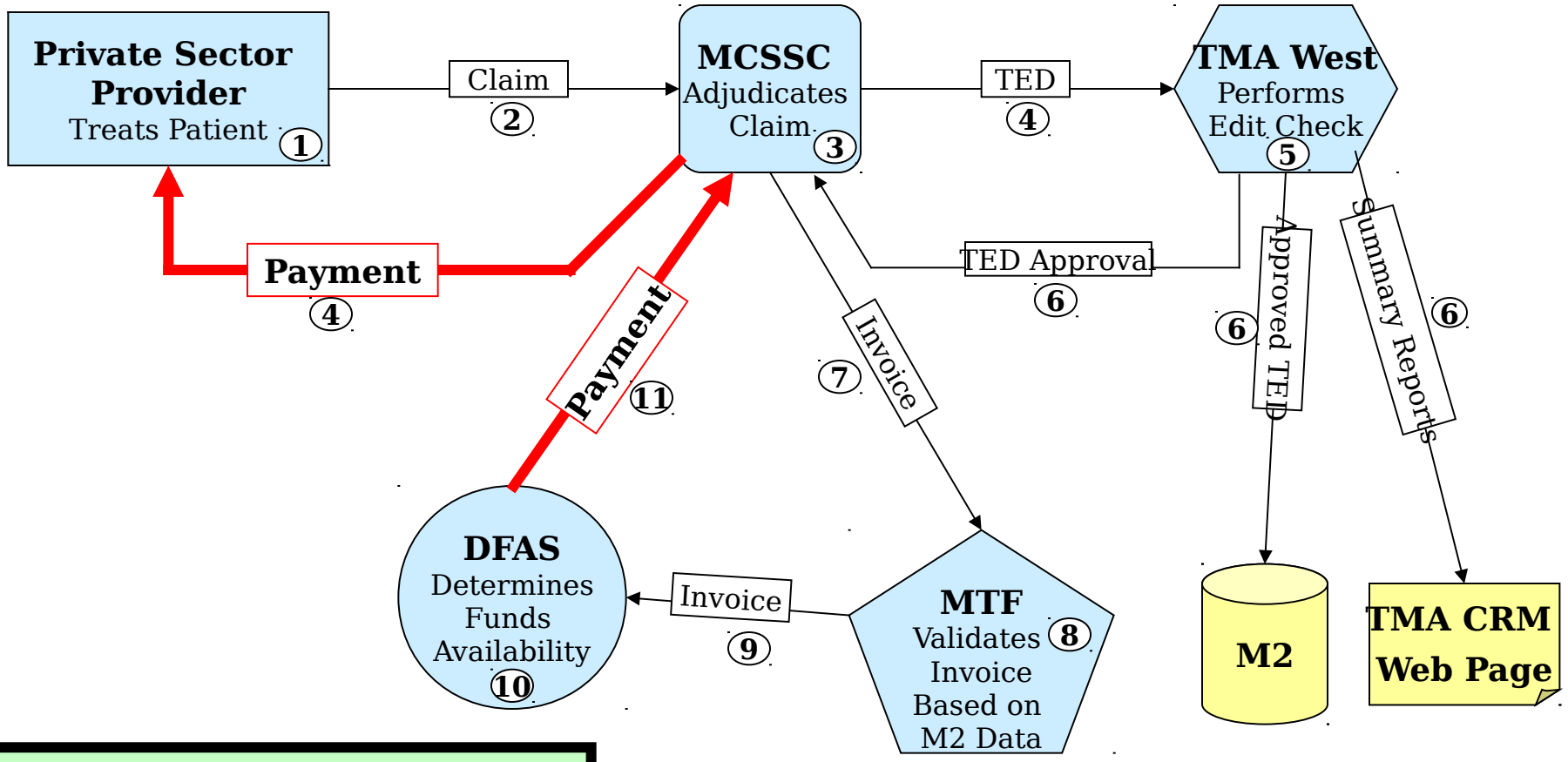
- **Model Should:**
  - Provide strong customer service incentives
  - Provide stronger incentives for contractor to use MTFs (no MTF BPA, no “O” factor)
  - Provide cost control incentives for MTFs due to revised financing and risk sharing
  - Provide cost control incentives for contractors (risk sharing)
  - Improve budget predictability (simpler and quicker adjustments)
  - Reduce complexity
  - Eliminate most healthcare change order negotiations
  - Accommodate TFL and accrual funding

Financial Effect on the MTF

T-NEX Financial Effect on the MTF

- MTFs will be funded for private sector care costs for their enrollees excluding pharmacy (AD included)
- MTFs will be invoiced by the contractor for private sector care provided to their enrollees
  - Invoices will be received at the MTF 15 days after previous month (e.g. 15 Jan for Dec charges)
  - Approved TED data will be available on a MHS data system at the time an MTF receives their invoice
- MTFs must comply with rules of the Prompt Payment Act
- DFAS will be the dispersing agent

Funds Flow: MTF Enrollees



Funds: Revised Financing & Supplemental Care
Account Holder: MTFs

DFAS: Defense Finance & Accounting Service

MTF TRICARE Prime Enrollee Visibility

- Web-based tool to provide MTFs with visibility to the purchased care costs for their TRICARE eligible enrollees excluding pharmacy
  - Data will be compiled on paid claims costs using the MHS Data Mart (M2) by Enrollment Site
  - Reports are detailed at the MTF/MDC /Provider specialty code level
  - Reports will be updated on a monthly basis to coincide with the monthly M2 updates
- Available now on the RM/FA&I website:
  http://www.tricare.osd.mil/ebc/secure2/reg_01.htm
- Active Duty Supplemental Care information available on the CRM website contact carlton.jeffcoat@tma.osd.mil for a password

Executing the Current Contract While Planning for T-NEX

TRICARE Management Activity

- Bid Price Adjustment terms still in effect
  - Focus of T-Nex is on optimizing the Direct Care system
  - However, adjustments in current contract made based on MTF Outpatient Visits and Non-Availability Statements
- Must meet **current** contract requirements
  - Including resource sharing threshold requirements
- Need balanced approach for transition to T-NEX
  - Minimize the impact to existing contracts while preparing the system for the business rules under T-Nex

Resource Sharing Transition

- **What's changing???**

Resource Sharing

TRICARE Management Activity

- Use existing or develop new contracts
- Contracting alternatives are:
  - Navy - MATO Personal Services Contracts
  - VA - GSA Federal Supply Schedule
  - Army - Innovative Medical Acquisition Program (iMAP)
  - AF – Personal/non-personal service contracts
- Services must resolve non-compete clause issues

Resource Sharing Transition

- All **Current** Resource Sharing Agreements(RSA) expire when the current MCS contracts end
- RS is still a viable option under the current contracts; need to maintain current RS thresholds
- In transitioning to T-NEX, category 8 funds will be provided to the Services 6 months prior to start of healthcare delivery for RS conversions

Resource Sharing Timeline

Regions	Current Regions	Start HC Delivery	RS $$s Available
North	Region 2/5 Region 1	1 Jun 04 1 Sept 04	1 Dec 03 1 Mar 04
West	Region 11 Regions 9/10/12 Region 7/8	1 Apr 04 1 Jul 04 1 Oct 04	1 Oct 03 1 Jan 04 1 Oct 04
South	Region 6 Region 3/4	1 Nov 04 1 Aug 04	1 Nov 04 1 Feb 04

Which RSAs should be converted?

- MTFs in conjunction with Services/Lead Agents should evaluate current agreements
  - Supports the strategic plan?
  - Most cost effective?
  - Key for readiness or GME?
  - Geographic location?
- Vehicles Available:
  - Direct contract
  - GS hire
- MTFs are expected to maintain same level of effort
  - Doesn't necessarily mean buy all of the same agreements

Local Support Contracts

- Appointing
- HEAR
- Healthcare Information Line (HIL)
- Utilization Management (UM)
- Transcription Servic

Appointing Services

- Use National Task Order Contract under development— SOW released
  - Designed to accommodate a range from one Appointment Clerk to a complete Call Center
  - Procurement support provided by Army MEDCOM Health Care Administration Activity
  - MTF Appointing only: Does NOT include Network Appointing
- Not mandatory to use

HCIL

- HCIL services can be developed at MTF/LA Regional level through the Services
  - Some MTFs/LA Regions have determined value added to maintain HCIL service

HEAR

- Automated HEAR 3.0 under development
  - Through TRICARE Online, CHCS II, or CHCS II – Theater
  - In the interim, use Service specific systems
    - Navy – Pop Health – Naval Health Services (PHNS) or SNAPS Automated Medical System (SAMS) (operational and shipboard use)
    - Air Force - Stand-alone Prevention and Readiness Tool (SPRT)
    - Army - No Army-wide AIS
- MTFs will process HEAR data; no longer responsibility of MCSC

MTF UM

- Use existing or develop new contract
- Contracting alternatives are:
  - Navy - MATO Personal Services Contracts
  - VA - GSA Federal Supply Schedule
  - Army - Innovative Medical Acquisition Program (iMAP)
  - AF – Personal/non-personal service contracts

Transcription Services

- Use existing contract
- Contracting alternatives are:
  - Navy - MATO Personal Services Contracts
  - VA - GSA Federal Supply Schedule
  - Army - Innovative Medical Acquisition Program (iMAP)

Summary Local Support

- SGs now have flexibility to purchase services locally
- SGs will establish processes to manage Local Support Contracts within MTFs
- TMA has developed critical milestones to procure local support services for each Region's health care delivery start date
- TMA has identified data acquisition tools for Services to deploy services locally
- Availability of funding needs to be provided in current fiscal year to meet procurement milestones
- Identified as a high risk transition concern

Summary

- Start planning for T-Nex today so you are not behind the eight ball!